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UNCLAS SECTION 01 OF 03 KINGSTON 000551

SENSITIVE  
SIPDIS

STATE FOR WHA/CAR (RALVARADO)(VDEPIRRO)(WSMITH)  
WHA/EPSC (MROONEY) (FCORNEILLE)  
EEB/IFD/OMA  
WHA/PPC (JGONZALEZ)  
INR/RES (RWARNER)  
INR/I (SMCCORMICK)  
SANTO DOMINGO FOR FCS AND FAS  
TREASURY FOR ERIN NEPHEW  
EXPORT IMPORT BANK FOR ANNETTE MARESH

E.O. 12958: N/A  
TAGS: [ECON](#) [ENRG](#) [EFIN](#) [EINV](#) [ETRD](#) [PGOV](#) [PREL](#) [IADB](#)  
IBRD, IMF, TRYS, JM, XL  
SUBJECT: JAMAICA: IMF NEGOTIATIONS IGNITE DEBATE,  
ECONOMIC FIRE STORM CONTINUES

REF: A. KINGSTON 521  
[1](#)B. KINGSTON 517  
[1](#)C. KINGSTON 422

[1](#)1. (SBU) SUMMARY AND ANALYSIS. A Government of Jamaican (GOJ) delegation led by Don Wehby, Minister Without Portfolio in the Ministry of Finance, visited Washington the week of July 6 to intensify negotiations with the International Monetary Fund (IMF). The GOJ's failure to reach most of its economic targets for the first three months of the fiscal year is adding a sense of urgency to the negotiations. The situation is becoming so dire that in May, for the first time in over a decade, Jamaica did not generate a primary surplus; the GOJ had to borrow funds just to repay interest on its debt.

[1](#)2. (SBU) The absence from the delegation of Minister of Finance Audley Shaw and Central Bank Governor Derrick Lattibeaudiere was criticized by the opposition Peoples' National Party (PNP), which hoped to score political points after being defeated in two major by-elections this year. After nearly a year of public discussions, most Jamaicans are now resigned to the imminent return to the IMF agreement, even though PM Golding continues to speak of it in abstract terms. An IMF arrangement appears imperative, not just for the financial support, but particularly because it will force the GOJ to address some of the structural changes required for the country to get out of its economic quagmire. End Summary and Analysis.

GOJ Team Visits IMF  
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[1](#)3. (SBU) The week of July 6 Wehby led a team of senior GOJ officials to accelerate negotiations with the IMF for a new borrowing arrangement to shore up the country's weakening external position (reftel A). The team included members from the Ministry of Finance, the Bank of Jamaica (Central Bank) and the Planning Institute of Jamaica. The discussions, which are at an advanced stage, were expected to reach consensus on a number of issues, including the amount of funding required to address the balance of payments (BOP) fallout, as well as the measures Jamaica would adopt to address the country's chronic economic woes.

¶4. (SBU) In particular, the IMF was interested in Jamaica's solution to the country's gargantuan debt stock (equal to nearly 110 percent of GDP), and by extension persistent fiscal deficits and anemic economic growth. Wehby told Econoff prior to his departure that the IMF was specifically interested in the GOJ's plan for improving tax collection.

#### Absence Ignites Political Storm

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¶5. (SBU) The opposition PNP drew attention to the fact that both Shaw and Lattibeaudiere did not attend, igniting speculation and public debate on the reasons for their absence. The move comes against the background of Wehby's pending departure from the GOJ and his return to the private sector at the end of July (reftel B). Former Finance Minister Omar Davies maintained it was unforgivable for Shaw and Lattibeaudiere to be absent from such critical discussions. Davies said the move was irresponsible, given that Wehby was on his way out of government. (Note: It was suggested to Emboffs that Shaw, the consummate politician, had stayed behind to shore up support for a colleague contesting a municipal by-election. End Note.)

¶6. (SBU) Opposition Spokesman on Industry and Commerce, Mark Golding, speaking to a partisan crowd largely opposed to a return to the IMF, said that Shaw's absence from the IMF negotiations and his limited role in preparing the April 2009 budget shows he lacks the technical competence to manage his portfolio in a time of crisis. (Note: The PNP administration of the 1990s broke off its borrowing relationship with the IMF, citing the harsh conditionalities. Reftel B. End Note).

#### Shaw and Latibeaudiere Hit Back

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¶7. (SBU) In an official press release, Shaw chastised the PNP for criticizing his handling of the IMF negotiations. He said he did not need to be involved in the discussions since they are not at a decision-making stage. Prime Minister (PM) Bruce Golding noted that Shaw traveled to Haiti on July 16 to meet with the Luis Alberto Moreno the head of the IDB, to "discuss commitments that are important to Jamaica." PM Golding said, "We have to keep the dialogue going, because when we are passing through this kind of fire storm, we need every friend that we can find who is prepared to offer assistance." Latibeaudiere also rejected as "laughable" any suggestion that his absence from the meeting indicated a rift within the government regarding IMF talks. He said he has been involved in discussions with the IMF for the last several months through videoconferencing and telephone calls.

#### Economic Woes Intensify

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¶8. (SBU) Even as both parties engage in a war of words over IMF meetings, economic conditions continue to worsen, with the country generating a primary deficit (revenues minus recurrent expenditure net of interest payments) for the month of May. This is a sign that the country's gargantuan stock of debt is becoming unsustainable amid declining output and falling revenues. For the first quarter of 2009, economic output declined by 3.1 percent, due largely to a fall out in the goods producing sectors (except agriculture), led by bauxite and alumina. This is expected to precipitate an almost USD 1 billion fallout in export earnings for 2009.

¶9. (SBU) To make matters worse, there has been a 17 percent decline in remittances for the first six months of the year. Remittances are heavily relied upon by many Jamaicans for the purchase of basic necessities such as food, rent, and education fees. This decline is expected

to exacerbate worsening poverty levels. Data for the first two months of the 2009/10 fiscal year also shows that the fiscal deficit of USD 250 million is running well ahead of target despite a USD 38 million cut in expenditures. This is a troubling development, as it means the increased deficit is solely attributable to the underperformance in revenues, down USD 62 million. This suggests that the extent of the economic fallout was underestimated, and the entire economic framework, thus might well be questionable.

#### IMF Program Vital

¶10. (SBU) XXXXXXXXXXXX, a senior technocrat at the Ministry of Finance, told emboffs that the GOJ did not make as much progress as it had intended in Washington, but said an IMF program had to be in place within the quarter to stem the fiscal slide. XXXXXXXXXXXX said that after intense discussion of the difficult issue of public sector downsizing, the IMF team moved closer to the GOJ position that the wage-to-GDP ratio was not out of line with Jamaica's comparators. He stated that if teachers, who make up almost one fifth of the public sector, had not been granted a 50 percent salary hike, the ratio would have been even more acceptable. XXXXXXXXXXXX said that the IMF team is expected in Jamaica in late July to finalize discussions on the solution to the debt problem.

¶11. (SBU) PM Golding said in a press release on July 16 that whether Jamaica goes to the International Monetary Fund (IMF) or not, it will not be business as usual, because the country is facing serious financial problems that will require an unaccustomed level of discipline. (Comment: PM Golding continues to talk of serious financial challenges facing the country, but seems reluctant to speak frankly to the public about the country's imminent return to the IMF) End Comment.

#### Interest Rates Must Fall!

¶12. (SBU) XXXXXXXXXXXX said the GOJ and the IMF have grave concerns about the country's gargantuan debt stock and the attendant high interest rates. He said based on the discussions a solution must be found to this problem before an agreement can be reached. with an estimated annualized inflation rate of about 10 percent for 2009, real interest rates are in the region of 11 percent. He said the sticking point was whether an interest rate reduction could be negotiated or one would have to be imposed: an imposition had inherent risks, creating unease among domestic creditors, on whom the GOJ will still depend for new debt, and could initiate a run on the local currency.

¶13. (SBU) Although PM Golding has been approached by domestic creditors interested in negotiating a deal, nothing concrete has materialized to date. Last week, during a meeting the country's domestic creditors, he stated his desire for the GOJ to reduce interest rates. But despite the creditors public posturing, it appears only U.S.-based Citibank is willing to make concessions. XXXXXXXXXXXX is doubtful that other financial institutions will be willing to voluntarily make the concessions needed for an interest rate deal. When asked about the magnitude of the concession being sought, XXXXXXXXXXXX suggested that even a 5 percentage point reduction would bring much needed fiscal space. The GOJ would like to have a new ceiling on debt at or near a rate of 16 percent per year in the short term and then hopefully to extract further concessions on some of the older debt sourced at rates of 18 to 21 percent to bring them in line with the new debt ceiling.

#### ANALYSIS

¶14. (SBU) After nearly a year of public discussions, most Jamaicans are now resigned to the imminent return to the IMF agreement, even though PM Golding continues to speak of it in abstract terms. Shaw has signaled that an agreement is inevitable and Wehby has said flat out, "The country has no other choice, but to return to the IMF." (Reftel B). As the country is finding it difficult to fund some of its major obligations, some analysts are criticizing the GOJ for waiting so long to approach the IMF. An IMF arrangement appears imperative, not just for the financial support, but particularly because it will force the GOJ to address some of the structural changes required for the country to get out of its economic quagmire. End Analysis.  
MOSS